
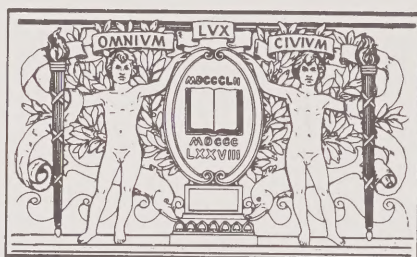


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The Boston Economy and the Housing Market

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Table of Contents

The Boston Economy

Population

Housing

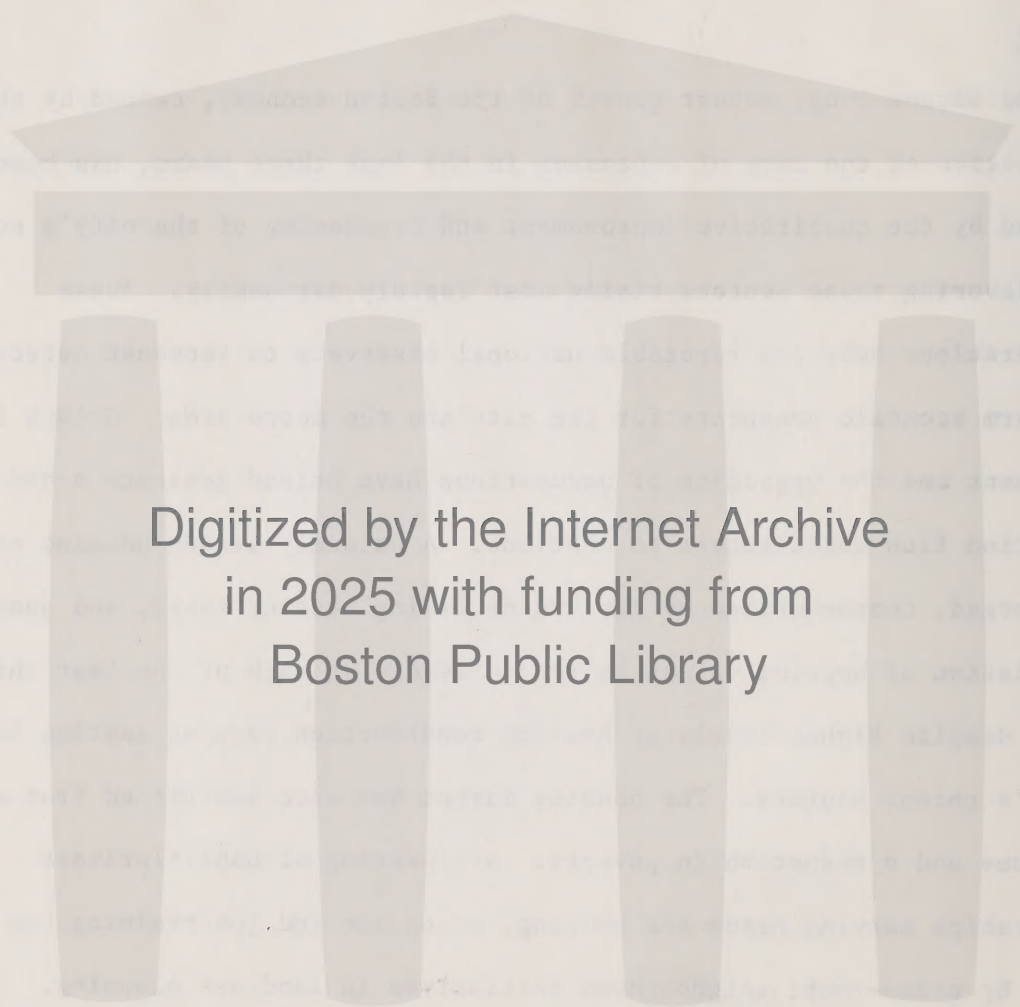
Benefits

Partnership

Sources

Summary

The decade-long, robust growth of the Boston economy, capped by the acceleration of the rate of expansion in the last three years, has been nurtured by the qualitative improvement and broadening of the city's economic base, favoring those sectors rising most rapidly nationally. These considerations have led reputable national observers to forecast outstanding long-term economic prospects for the city and the metro area. Growth in employment and the upgrading of occupations have helped generate a new population flow which augers to continue. A uniquely strong housing market has emerged, characterized by low and declining vacancy rates, and sustained appreciation of housing values to record levels in each of the last three years, despite higher levels of housing construction than at anytime in Boston's recent history. The housing market has also benefitted from a rise in income and a reduction in poverty. A flowering of public/private partnerships serving needs for housing, education and job training has been joined by grass-roots neighborhood initiatives in land use planning.



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The Boston Economy

The recent performance of the Boston economy has been extraordinary and prospects for the future are outstanding. Boston's jobs expanded from 511,000, in 1976, to 608,000, in 1986, representing a growth of 97,000, or 10,000 per year, an annual rate of increase of 1.8%. Employment growth, from 1983 to 1986, was 39,000, or 13,000 per year, representing an annual growth rate of 2.2% per year.

These trends reflect Boston's emergence as the pre-eminent services economy, and exporter of services among the nation's large cities. In 1984, Boston ranked highest with 57% of its employment in services, finance, and transportation and communication, in comparison with 56% in San Francisco, and 53% in New York City. Boston also led the way as an exporter of services, with its 35% share of services employment dedicated to exports, surpassing the relative size of the services export role in San Francisco and New York City, the runner-up metropolises.

Boston's services activities, dominated by professional and business services, higher education and medicine, money management and communications, are addressed to the needs of the metro area, state, New England region, the nation and the world.

Boston's prosperity mirrors that of the region it serves. The U.S. Bureau of Economic Analysis reported, in April 1987, that "In 1986, the largest percentage gains in per capita income were in the high income regions--New England and the Mideast...In both regions, per capita income has increased faster than the national average in every year since 1980". New England had the highest 1986 growth rate (6.5%) of the nation's eight regions.

The Massachusetts rate was 6.9%. New England's good times, as well as that of the metro area and the state, rest on an expanding economic base favoring durable manufactures - machinery, electrical machinery, instruments, fabricated metals, and transportation equipment, (including high-tech) - and growth in the broad range of services activities.

The Boston economy has gained not only in numbers of jobs, but also in quality. Since 1982, Boston's per capita income growth has exceeded that of the metro area, state, New England region, and the nation, reflecting the upscale occupations and income of a growing share of its labor force and the quality of the city's jobs. Average annual wages in Boston have been higher than that for the metro area and state in each of the last five years. This has come about with the more rapid growth in employment in small and medium sized business and professional services activity firms, with their larger share of professional, managerial and technical workers, in comparison with the slower growth in employment for the large banks and insurance companies.

To accommodate the growth in jobs, Boston has been experiencing an expansion in development construction, with record levels of office space absorption. Consequently, office vacancy rates have remained low. Development construction totalled \$3.5 billion in the past three years (\$1.2 billion a year), in comparison with an annual average of \$760 million a year in the 1980-1983 period. At the same time, office space absorption has averaged 2 million square feet a year, in the past three years, in comparison with 1.3 million square feet in the 1975-1983 period. With the new construction and the renovation of older structures, the Class A share of

Boston's office space (that built since 1960 or renovated to new condition) increased from 40%, in 1978, to 60%, in 1986. High demand for office space, and the upscale quality of the tenant firms, support office rental rates exceeded only by those for Manhattan and Washington, D.C. In the meantime, Boston's Class A office vacancy rate was 6.4%, at the end of first quarter 1987, which may be the lowest rate for any large city.

Boston's hotel rooms increased by two-thirds (4,000 rooms), since 1980, to serve the growing numbers of business visitors (50% of hotel clients), convention goers (30%) and tourists (20%). Half of the increment in hotel rooms emerged in 1984, 1985 and 1986. Boston's hotel occupancy rate in 1986 was a record 72.5%, the highest in 10 years, and the average daily room rate was \$91.

Boston's retail space was very substantially expanded and upgraded with the addition of 1.1 million square feet of net new space (a growth of 14%) in total downtown retail space since 1980, in response to Boston's reemergence as a metropolitan shopping center, the demand of the rising, upscale labor force, and the growing resident population. Virtually all of these new facilities came on to the market in 1984, 1985 and 1986, reflecting the return of an era of people feeling good about Boston.

Prognoses for the future, prepared by reputable national public and private agencies, forecast both very substantial growth and improvement relative to other metro areas for the Boston Metro Region which currently has a population of 3.8 million and 2.2 million jobs. The metro region, with a 1987 personal income of \$67.8 billion, 7th highest in the nation, would better in rank to 6th and a personal income of \$95 billion, in the year 2000,

according to the U.S. Bureau of Economic Analysis. The report, published in 1985, projects the Boston metro region to gain in rank, in comparison with the Nation's 330 metro areas, and to rise from 5th highest to 4th highest in employment, from 6th to 5th in population, and from 15th to 11th in per capita income. The National Planning Association forecast (in 1986) that the Boston Metro Region would gain 754,000 jobs, by the year 2000, and that this advance would be exceeded only by that of the Los Angeles area, with an increase of 1 million jobs.

Related analyses and projections for the City of Boston forecast a 1985-2000 growth of 150,000 jobs, principally in the broad range of services activities, including money management and communication.

A survey of 400 chief executive officers and 201 senior corporate real estate executives at companies across the nation with revenues of \$100 million or more, conducted at the end of 1968 by Louis Harris and Associates, for the Cushman & Wakefield Business America Real Estate Monitor, reported that 54% of the executives rated Boston as the best area to locate a business; this rating was topped only by Atlanta which was favored by 67% of the CEO's.

The rating of Boston's municipal bonds was upgraded by both Standard & Poor's and Moody's in early 1987.

Population

The May 1987 report of the Governor's Decennial Census Commission, and its finding of a Boston 1985 population of 601,095, represents an increase of 38,100 from Boston's 1980 population of 562,994, and a reversal of thirty years of decline.

Boston's population had fallen by almost a third from its peak of 801,000, in 1950, to the low-point, in 1980, as a result of post-war suburbanization, the loss of more than half of the city's manufacturing jobs, and the effect of the deep national recessions of the early 1970's on Boston. Unemployment had reached 12.5%, in 1975, and, as the city lost blue-collar jobs, it also lost blue-collar workers and their families.

A confluence of factors are contributing to the population revival. In the 1970-80 decade, while Boston's overall population level was declining, there was a substantial net increase in the young adult population (+28,000 for 25 to 34 year olds), and in the more centrally located neighborhoods they favored, and this has continued. The massive 1970-80 outflow of blue-collar workers and their families has ceased with the stabilization of industrial jobs and the improvement of neighborhood housing conditions. Minority population has continued to grow through natural increase for blacks and the influx of Asian and Pacific Island migrants. A new flow of migrants from Ireland has emerged with the deterioration of economic conditions there since 1980. Boston has been experiencing net immigration since 1980, after 50 years of net outflow. Boston's birth rate has been rising since 1977. "Empty nesters", suburban couples whose children have left home, are selling their

large houses and moving into Boston. Improved racial ambience, lower and fairer property taxes, more favorable fiscal treatment by the State Legislature, a citywide advance in neighborhood housing conditions, and enhancement of amenities have all combined to make Boston an exceedingly attractive place to live.

For the future, projections of Boston's population, based on a study made in 1985 and recently updated, point to a year 2000 population of 710,000, in comparison with the 1985 level of 601,095, and the peak of 801,000, in 1950. This would represent an increase of 109,000, 1985-2000, and an average annual growth rate of 1.1%, in comparison with the 1980-85 rate of 1.3%.

Household size is stabilizing following a long period of slimming down. Average household size had been reduced from 2.76 persons, in 1970, to 2.4 persons, in 1980, reflecting the national trend of growth in non-family households as rising income and relatively cheap housing made it easier for the young and the old to spin off from the nuclear family. Stability in size has emerged since then, with a 1985 average of 2.45 persons, according to our Boston Household Survey. The sharp rise in housing costs, and the modestly rising share of minorities in Boston's population, are credited with the attenuation of the trend, and this is expected to continue.

Boston's minority population increased in share from 18%, in 1970, to 30%, in 1980, and 34% in 1985. The 1970-1980 trend was accentuated by the large loss of white blue-collar workers and their families as the city lost blue-collar jobs in that period, and by the strife associated with busing. Declining birth rates for the white population, also a factor, reflected the low birth rates of the depression years of the 1930's, in part.

At the same time, the beginnings of the attenuation of the trend were already evident in that period; there was a substantial net influx of 25-34 year olds, 1970 to 1980, mainly white, mainly middle class, and mainly professional, resulting in a net population growth for the more centrally located neighborhoods even while the overall city population fell. Since 1980, while the black, Hispanic, and Asian and Pacific Island population has continued to increase, the white population has expanded, reversing a 30 year trend of decline.

Boston's jobs and amenities are proving to be attractive to white adults, both the younger age group, professional and non-professional, and the older empty-nesters who are giving up their large suburban homes and moving into the city. Of Boston's 1985 white population (at 66% of the total, in comparison with 70%, in 1980), 38% had moved into the city since 1980; for Boston as a whole, one-third of the 1985 population had come in since 1980. In contrast, only 14% of the black residents, comprising 23% of the city total as of 1985, were new to the city, in relation to 1980. New residents made up 65% of the Asian and Pacific Island population, with 4% of the city's total in 1985, and 30% of the Hispanic population with 7% of the Boston total in 1985.

The proportion of households made up of families (rather than unrelated individuals) had declined from 65%, in 1970 to 53%, in 1980, mirroring national trends, but appears to have stabilized at 54% in 1985.

Housing

Boston's housing market is described by qualified observers in successively expansive superlatives. Citing the findings of the National Association of Realtors, the Boston Herald of May 12, 1987 reported "For the first three months of 1987, Boston (metro area) kept its title as pricey home capital of the U.S., with the median price of an existing single-family home rising 16.8% to \$170,000...New York City came in a close second with a median sales price of \$169,400." A year earlier, the rise in Boston's housing prices was called "highest in the U.S.", in a Boston Globe article reporting the findings of a nationwide survey by the National Association of Realtors. The average price of a single-family home in the City of Boston had increased by 37% in 1985. From 1979 to 1985, single-family home values had increased more than three-fold.

The effect of the strong housing market on vacancies is confirmed by recent counts and surveys. The U.S. Census Bureau had reported Boston's 1980 rental vacancy rate at 7.5%, total, and 5.0%, vacant more than 2 months. A representative household survey conducted in Boston in Spring 1985 reported a gross vacancy rate (including "for sale" housing and board-ups) of 6.1%, and a net vacancy rate (excluding board-ups but including "for sale" housing) of 4.3%. The rental vacancy rate was estimated at 5.4%, and that vacant more than 2 months at 2.9%. A U.S. Postal Service survey, conducted for the Federal Home Loan Bank Board, in April 1985, showed a vacancy rate of 2.5% for all housing. The Rental Housing Association of the Greater Boston Real Estate Board reported on a survey in October 1986, presenting information indicating a rental vacancy rate of 2.8% for Boston.

The shortage has exacerbated despite record rates of increase in the housing supply in 1986 and 1987,--the highest since the 1920's. In his January 1986 "State of the City" address, Mayor Raymond L. Flynn set a goal of 3,400 new housing starts. In fact, there were 3,715 housing starts, including 1,061 affordable for low and moderate income households. The goal for 1987 is 4,000 dwelling units. In contrast, Boston added an annual average of only 1,536 housing units during 1980-1985.

The significance of the housing success this year and last is best appreciated in the perspective of Boston's recent experience. The most sustained previous expansion of Boston's housing supply in modern times took place in the 1950-60 decade, drawing on new post-war legislation authorizing low-interest F.H.A. (Federal Housing Administration) and V.A. (Veterans Administration) mortgages. Between 1950 and 1960 an annual average of 1,674 dwellings were added to Boston's housing stock, according to the U.S. (decennial) Censuses of Housing for 1950 and 1960; (the housing censuses provide the most definitive measure of change, and show the net effect of new construction, conversions and removals of dwellings).

In the 1960-70 decade, however, Boston's population fell by 56,000 as the city was impacted by post-war suburbanization and a large loss of manufacturing jobs. Boston entered a "throw-away" housing era. With more housing than people, and with some urban renewal clearance of deteriorated dwellings, the city's housing supply was reduced at an average annual rate of 637 dwelling units in the 1960-70 period.

The throw-away housing era continued in the 1970's, until about 1978, with the beginnings of fundamental change signalled by the sustained job expansion beginning in 1976. A massive annual average of new housing additions

of 2,800 dwellings, mostly public-assisted, was offset by a record rate of attrition of 1,900 housing units a year (from demolition, arson and abandonment), in the 1970-80 decade, for a net annual average gain of 886 dwellings a year in that period.

With the growth of jobs (since 1976) and population (since 1980), more housing was needed, and this market incentive, together with available (though diminishing) federal funds for housing production, combined to push up the rate of increase in housing supply to an annual average of 1,536 dwellings a year, in the six years, 1980-85 inclusive. In this period, attrition was reduced to 200 dwellings a year, adaptive re-use of non-residential structures to housing emerged on a large scale, and "hidden housing production", the illegal carving out an addition of dwelling units to structures zoned for one-family, two-family and three-family homes, became a significant measurable phenomena.

The creation of condominiums, mostly through the conversion of rental housing, continues to accelerate, reflecting the strong demand pressures on the housing supply. The annual average, which was 285 condominiums in the ten-year period, 1969-78 inclusive, rose to 1,676, in 1979, 1,860, in 1980, and an average of 2,660 a year in the four years, 1981-84 inclusive. This rate increased to 4,525, in 1985, and 4,624, in 1986. In the first four months of 1987, 2,192 condominium deeds were recorded, indicating that a new record may be set in 1987. The condominium conversion process, initially centered in multi-family structures, is increasingly affecting two-to-six unit structures. By 1987, all neighborhoods experienced condominium conversions, originally concentrated in downtown areas.

With the prospects for growth in jobs (+150,000) and population (+110,000), through the year 2,000, housing demand is likely to be sustained and substantial through the end of the century. With an outlook for a net

increase of approximately 50,000 households and with some allowance for replacement of an old housing stock, Boston's housing needs may average 3,000 to 4,000 dwellings a year for the next 13 years.

A recent survey of the availability and location of vacant and underutilized land and structures confirms the potential for achieving the long-term need for housing to the year 2000. In addition, neighborhood constituencies are both identifying "housing" as the most important neighborhood concern, and supporting rezoning to encourage an expansion of land use for housing. A planning and zoning process of "Interim Overlay Planning Districts" is involved. Much of the housing potential is in large sites of vacant and underutilized land, including parcels of 1 to 10 acres, and 10 to 200 acres; some of the potential is made up of lots of an acre or less, and underutilized building structures in fair, poor and very poor condition. Much of the land is public, owned by the BRA, the city, the state and the federal government; most is privately owned. Much of the potential is concentrated Downtown and in the more centrally-located neighborhoods, but there is significant development potential in virtually every neighborhood. Some of the land is already zoned residential, but much is presently zoned commercial and industrial. A citywide rezoning effort, currently underway, will change much of the present land use to encourage housing. For many sites, the currently permitted floor area ratio would continue to be suitable for housing.

As of 1985, the median gross rent for rental housing in Boston was \$400; 33% of all renter households paid monthly rents of \$500 and over, rent as a percent of income was 40% or more for two-fifths of renter households. Half of Boston's 1985 housing stock was in private rental apartments, nearly one-third was owner-occupied, and less than one-fifth were publicly owned or subsidized. Massachusetts has many programs to create housing.

Benefits

Relevant to the housing market are the benefits development is bringing to Boston residents who are generally less well-off than their suburban metropolitan neighbors, and, in the recent past, had difficulty in sharing in the city's economic prosperity. From 1983 to 1986, Boston resident workers captured 40% of the three year job gain, stabilizing their one-third share of the city's jobs. This followed a quarter century of expansion of suburban residents' share of Boston jobs, from 50%, in 1950, to 67%, in 1980. There is also new evidence that poverty in Boston is declining. From 1983 to 1986, the Boston caseload of Aid to Families with Dependent Children (AFDC) declined by 8%, the Boston General Relief caseload fell by 8%, and the Boston Food Stamp caseload fell by 17%, in a period when eligibility rules were constant following cutbacks in the federal budget for fiscal year 1982. Related to these improvements were advances in educational attainment and occupational skills. Between 1980 and 1985, the percentage of adults with a college degree increased from 20% to 28%, while the share of those without a high school diploma fell from 32% to 23%. Similarly, the proportion of the employed labor force with professional, managerial and technical training increased from 30%, in 1980, to 36%, in 1985. More Boston resident workers are making it into the thriving downtown economy, with the Boston resident workers place of work rising from 20% downtown, in 1980, to 28%, in 1985.

Jobs in Boston's expanding services economy are good jobs, by and large, though some manufacturing and services industries are low wage. The overall annual average wage was \$22,720, in 1985. Boston wage levels ranged from \$13,900 in hotels, and \$9,100 in eating and drinking places, to \$27,130 in printing and publishing (the city's largest manufacturing industry), \$30,200 in transportation and communication, \$29,000 in finance and insurance, \$30,000 in professional services, \$18,000 in business services, \$21,400 in medical services, and \$18,000 in education.

Partnership

Boston has been a leader in creating public-private-community partnerships to improve the quality of life in the city. In the areas of housing, education, health care, and jobs, Boston has created unique institutions to share its economic prosperity across the economic spectrum. Under the acronyms of "Boston Works", "Boston Compact", "Access", "Boston for Boston", "Private Housing Partnership", "Employment Commission", "Tri-Lateral Council", and "Linkage", the Flynn Administration has implemented programs and policies with the business community and neighborhood organizations that strengthen education and job training programs, provide jobs for high school students, finance college for needy students, guarantee jobs on graduation, favor jobs for Boston residents, promote affordable housing, and bring the benefits of development to the city's neighborhoods. Neighborhood groups are involved in reviewing developments and in grass root planning efforts leading to new planning and zoning regulations which favor residential use and development projects sensitive to neighborhood character and needs. The Flynn Administration has also succeeded in reaching out to the Governor and the state legislature for support in fiscal aid, housing, transportation, and land use.

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